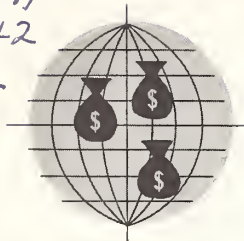


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Reserves, Trade

AUG 17 1966 and Economic Growth in 1965

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By George R. Kruer

MAY 1966

International Monetary and Trade Research Branch • Foreign Development and Trade Division • FGER-1

GLOBAL SURVEY 1/

The expansion of world trade continued in 1965, but at a slower rate than in 1964. The 1965 increase in exports was 8.0 percent as compared to the 1964 rate of 12.6 percent. As measured by exports, the value of trade in 1965 was \$164 billion, or \$12 billion higher than in 1964.

The increase in world trade occurred despite only moderate (\$1.3 billion) growth in international gold and foreign exchange reserves from the end of 1964 to the end of 1965. This, combined with the increase in trade, caused the ratio of reserves to imports for all countries at the end of 1965 to drop to 38.1 percent as compared to 40.7 percent at the end of 1964 (see tables 1 and 3).

Most of the increase in world reserves came from increased drawing rights at the IMF, since a number of factors tended to hold down the increases in the other reserve items. Newly mined gold plus the Russian gold sales amounted to approximately \$1.9 billion, but only \$250 million of this is believed to have reached official monetary stocks. The remainder went into private hoards and industrial uses. Also, the French cut world reserves by cashing in dollars for U.S. gold. This type of action diminishes reserves since convertible currencies held by others are a part of total international reserves, but when returned to the issuing country (the United States in the case of dollars) they cease to be holdings of foreign convertible currencies.

1/ Most 1965 data in this issue is preliminary. References to "total" world gold, reserves, etc., are exclusive of the Sino-Soviet countries, Cuba, and Indonesia. Export values are f.o.b. and import values are c.i.f.

Table 1.--International gold and foreign exchange reserves of the Free World ^{1/}

Country and area	Reserves				Gold	Ratio of
	Dec. 31,	Dec. 31,	Dec. 31,	Change	component	reserves to
	1963	1964	1965	Dec. 1964- Dec. 1965	Dec. 31, 1965 <u>2/</u>	imports <u>3/</u>
	Million U.S. dollars				Percent	
ALL COUNTRIES, Total	66,505	68,900	70,230	1,330	67	38
I. INDUSTRIAL AND OTHER HIGH-INCOME COUNTRIES	56,623	58,949	59,050	101	75	40
United States	16,843	16,672	15,450	-1,222	95	58
Belgium-Luxembourg	1,940	2,192	2,304	112	81	33
France	4,908	5,724	6,343	619	88	56
Germany, Federal Republic of	7,650	7,882	7,429	-453	74	39
Italy	3,406	3,824	4,415	591	67	55
Netherlands	2,102	2,349	2,416	67	88	29
European Economic Community	20,006	21,971	22,907	936	79	43
Austria	1,229	1,317	1,311	-6	59	55
Denmark	470	645	586	-59	26	20
Norway	354	387	476	89	12	21
Portugal	842	954	1,009	55	59	93
Sweden	758	964	972	8	35	21
Switzerland	3,078	3,123	3,247	124	94	84
United Kingdom	3,147	2,316	3,004	688	75	18
European Free Trade Association	9,878	9,706	10,605	899	68	31
Australia	1,880	1,947	1,575	-372	23	43
Canada	2,603	2,881	3,027	146	50	31
Finland	293	384	292	-92	34	17
Greece	293	281	250	-31	37	20
Iceland	34	44	54	10	7	33
Ireland	406	446	410	-36	8	40
Japan	2,058	2,019	2,152	133	27	26
New Zealand	143	166	97	-69	—	9
South Africa	763	701	577	-124	80	24
Spain	1,147	1,513	1,409	-104	68	42
Turkey	178	144	141	-3	82	24
Yugoslavia	98	74	104	30	18	8
II. LESS DEVELOPED COUNTRIES	9,790	9,885	11,115	1,230	28	31
<u>Latin America</u>						
Costa Rica	16	19	20	1	10	10
El Salvador	44	53	56	3	43	26
Guatemala	57	60	68	8	32	(b) 29
Honduras	12	20	23	3	—	(a) 18
Nicaragua	32	39	57	18	—	(a) 35
Central American Common Market	161	191	224	33	21	n.a.
Argentina	270	153	236	83	28	20
Bolivia	10	22	36	14	22	(d) 33
Brazil	318	368	688	320	9	58
Chile	77	89	137	48	32	(a) 22
Colombia	106	124	130	6	26	31
Dominican Republic	42	41	45	4	9	(a) 53
Ecuador	52	52	46	-6	24	(b) 28
Haiti	3	3	5	2	20	15
Jamaica	91	97	96	-1	5	32

Table 1.--International gold and foreign exchange reserves of the Free World 1/--cont.

Country and area	Reserves				Gold component Dec. 31, 1965 <u>2</u> /	Ratio of reserves to imports <u>3</u> /
	Dec. 31, 1963	Dec. 31, 1964	Dec. 31, 1965	Change Dec. 1964- Dec. 1965		
	Million U.S. dollars					Percent
Mexico	543	583	527	-56	40	33
Panama	34	19	n.a.	n.a.	—	n.a.
Paraguay	3	5	9	4	33	14
Peru	135	160	175	15	43	21
Uruguay	197	190	198	8	78	194
Venezuela	745	831	818	-13	54	(a)66
<u>Middle East</u>						
Iran	246	199	236	37	63	29
Iraq	294	249	247	-2	56	(b)50
Israel	515	545	643	98	11	70
Jordan	63	77	140	63	4	(a)97
Kuwait	110	110	124	14	52	(e)39
Lebanon	206	232	251	19	73	(e)58
Saudi Arabia	514	585	718	133	13	(e)182
Syrian Arab Republic	38	40	38	-2	50	15
United Arab Republic	216	223	189	-34	74	31
<u>Asia</u>						
Afghanistan	45	44	45	1	80	n.a.
Burma	188	203	177	-26	52	85
Ceylon	75	51	73	22	—	27
China, Republic of	227	297	300	3	18	51
India	607	498	599	101	47	21
Korea	132	136	146	10	6	31
Malaysia	920	894	n.a.	n.a.	n.a.	n.a.
Pakistan	307	244	221	-23	24	28
Philippines	110	123	192	69	22	22
Thailand	576	660	651	-9	18	77
Vietnam	175	141	178	37	3	(a)48
<u>Africa</u>						
Ethiopia	50	61	77	16	9	(b)54
Ghana	122	123	132	9	6	(a)27
Libya	122	172	245	73	29	66
Mali	4	3	3	0	—	(b)10
Morocco	110	53	99	46	32	(a)24
Nigeria	248	256	251	-5	10	31
Somalia	19	n.a.	n.a.	n.a.	—	n.a.
Sudan	101	71	60	-11	—	(a)32
Tunisia	63	33	40	7	10	17
East Africa <u>4</u> /	197	188	n.a.	n.a.	—	n.a.
Equatorial Africa <u>5</u> /	58	66	75	9	7	(a)42
West Africa <u>6</u> /	147	134	157	23	5	n.a.

n.a. = Not available.

— Indicates figure is zero or less than half of 1 percent.

1/ Includes gold tranche position with the International Monetary Fund and some nonconvertible currencies for some countries.2/ Gold tranche position and lendings to the Fund included with gold.3/ Ratio of December 31, 1965 reserves to fourth quarter 1965 imports (at annual rates) except where denoted by letters which denote imports for the following periods: (a) third quarter 1965, (b) second quarter 1965, (c) first quarter 1965, (d) fourth quarter 1964, and (e) full year, 1964.4/ Includes: Kenya, Tanzania and Uganda.5/ Includes: Cameroon, Central African Republic, Chad, Congo (Brazzaville) and Gabon.6/ Includes: Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo and Upper Volta.Source: International Financial Statistics, International Monetary Fund, April 1966.

The gold involved in such transactions simply changes hands and therefore does not affect aggregate reserves.

The major changes in gold holdings between the end of 1964 and the end of 1965 are shown in table 2.

Table 2.--Changes in monetary gold holdings

Country	Changes, Dec. 31, 1964 to Dec. 31, 1965
	Billion U.S. dollars
United States	-1.4
France	+1.0
Italy	+ .3
Switzerland	+ .3
Spain	+ .2
Germany	+ .2

Source: Same as table 1.

Growth in reserves is further dampened to the extent that the U.S. balance-of-payments deficit is reduced, since this reduction implies fewer dollars going abroad to be held as convertible currency.

The value of world agricultural trade in 1964 was 6 percent above the 1963 level, reflecting gains in volume as well as price changes. Aggregate data is not yet available on world agricultural trade in 1965, but the upward trend of the past decade is thought to have continued. However, it

is possible that the gains in volume may have been offset by the price declines that occurred during the year, thus limiting the rise in the dollar value.

Prices of primary products from less developed areas, which had risen in 1963 and 1964, declined in 1965--in some cases to a point below their 1963 levels. The drop in prices for agricultural-type primary products from these areas accounted for the decline. Cacao prices dropped 26 percent below their 1964 levels, while prices for other products--including coffee, wool, and sugar--showed less precipitous declines in 1965. Mineral-type raw material producers fared better in 1965 than producers of agricultural primary products. Prices for tin and copper rose substantially, petroleum prices remained stable, and prices for other products of this type--zinc, lead--rose slightly.

In contrast to the softening in the prices of exports from the less developed areas, the export price index of the industrial and other developed areas continued to inch upward. A contrary movement of importance to U.S. agriculture was the decline in world market prices of wheat and cotton during 1965.

AREA AND COUNTRY DATA

The industrial and other high-income countries accounted for \$129 billion --79 percent--of world exports in 1965. This represents a larger share than in 1964 since the less developed countries accounted for only 12 percent of 1965's \$12 billion increase in export value over the 1964 level of \$152 billion. In both 1964 and 1965 the industrial and other high-income countries increased their trade at a rate 2 to 3 times faster than the less developed countries.

At the end of 1965, the industrial and other high-income countries held 84 percent of the total holdings of international reserves by countries. But of the \$1,330 million increase in reserves from the end of 1964, \$1,230 million was accounted for by the less developed countries.

Industrial and Other High-Income Countries

The countries in this group increased their exports by 9.0 percent in 1965, but reserves were virtually unchanged from the 1964 year-end figure. The large increase in the reserves of the European Economic Community (EEC) and the European Free Trade Association (EFTA) were offset by the large decrease in the reserves of the United States and the net decrease of \$512 million in reserves of the remaining countries in this group.

The trade surplus of the United States declined in 1965 but still was quite substantial at \$4,211 million. U.S. reserves declined by \$1,222 million from the end of 1964 to the end of 1965. For the most part, the decline represented loss of gold. (The U.S. balance of payments is presented in more detail on page 12.) The U.S. gross national product (GNP) increased 5.5 percent in real terms.

European Economic Community

The Community's adverse trade balance improved considerably in 1965, reflecting the vast improvement that occurred in the trade accounts of Italy and France. Their improvement was offset to some extent by a large decrease in Germany's usual trade surplus. EEC exports increased by 12.5 percent in 1965 while imports rose only 9.1 percent. Reserves increased by \$936 million. Overall, no balance-of-payments problems are anticipated in 1966.

The Community's combined real GNP increased by 4.0 percent in 1965 and is expected to rise 4.5 percent in 1966 (table 4). For the present, Community officials feel that emphasis should be put on investment in productive facilities and on curbing price increases so that the economic growth of the Community can be maintained. Price increases in 1965 as measured by consumer prices ranged from a low of 2.5 percent in France to a high of 4.5 percent in Italy and the Netherlands.

Table 3.--1965 exports and imports of industrial and other high income countries

Country and area	Exports	Imports	Balance	Change	Change
				in	in
				1964 to	1964 to
				1965	1965
	<u>Million U.S. dollars</u>			<u>Percent</u>	
WORLD TOTAL	164,000	173,000	-9,000	8.0	8.2
I. INDUSTRIAL AND OTHER					
HIGH INCOME COUNTRIES	129,346	137,579	-8,233	9.0	9.6
United States	27,400	23,189	4,211	2.9	14.3
Belgium-Luxembourg	6,394	6,318	76	14.4	7.1
France	10,053	10,341	-288	11.8	2.7
Germany, Federal Republic of	17,900	17,482	418	10.4	19.6
Italy	7,160	7,351	-191	20.2	1.7
Netherlands	6,392	7,463	-1,071	10.1	5.8
European Economic Community	47,899	48,955	-1,056	12.5	9.1
Austria	1,600	2,100	-500	10.7	12.7
Denmark	2,320	2,822	-502	9.4	7.8
Norway	1,443	2,206	-763	11.8	11.2
Portugal	569	896	-327	10.5	17.7
Sweden	3,973	4,378	-405	8.1	13.5
Switzerland	2,963	3,697	-734	11.9	2.4
United Kingdom	13,710	16,138	-2,428	7.2	.9
European Free Trade Association	26,578	32,237	-5,659	8.6	5.1
Australia	2,985	3,753	-768	1.7	13.3
Canada	8,527	8,715	-188	5.4	15.4
Finland	1,427	1,646	-219	10.5	9.4
Greece	326	1,124	-798	5.5	27.0
Iceland	129	137	-8	16.2	4.6
Ireland	627	1,041	-414	.6	6.9
Japan	8,453	8,168	285	26.7	2.9
New Zealand	1,007	1,052	-45	6.2	9.5
South Africa	1,492	2,688	-1,196	.1	14.4
Spain	945	3,009	-2,064	.9	34.0
Turkey	459	577	-118	11.7	6.5
Yugoslavia	1,092	1,288	-196	22.3	-2.5
Sum others-Australia to Yugoslavia	27,469	33,198	-5,729	10.1	11.7
II. LESS DEVELOPED COUNTRIES	35,100	35,400	-300	5.7	3.2

Source: International Financial Statistics, International Monetary Fund, April 1966

Economic activity in Belgium remained at a high, stable level throughout 1965. Real growth in 1966 is expected to be only half a percent higher than the 1965 increase of 3.0 percent. The full-employment situation remains stable and there is no fear of a recession. Inflation is viewed as the major threat.

Table 4.--EEC: Growth in real GNP

Country	: 1965	: 1966 : forecast
	Percent	
Belgium	: 3.0	: 3.5
France	: 2.7	: 4.5
Germany	: 5.0	: 4.0
Italy	: 3.0	: 4.5
Luxembourg	: 1.5	: 2.5
Netherlands	: 5.0	: 5.5
EEC	: 4.0	: 4.5

Source: European Community, No. 89, Feb. 1966.

Luxembourg's real GNP grew by only 1.5 percent in 1965 but the 1966 forecast is for a 2.5 percent increase.

The Belgium-Luxembourg Economic Union had a 14.4 percent increase in exports as opposed to a 7.1 percent rise in imports in 1965, permitting a small increase in reserves.

France succeeded in cutting her trade deficit from \$1.1 billion in 1964 to \$0.3 billion in 1965, as exports went up 11.8 percent and imports rose only 2.7 percent. Her reserves rose \$0.6 billion and she has a respectable 56 percent ratio of reserves to imports. Gold represents 88 percent of her reserves. Except for the United States and Switzerland, this is the highest percentage for any of the countries for which information is available.

France's growth rate was only 2.7 percent in 1965 and during the year the government took steps to stimulate the economy. By the end of the year there were indications that industrial production was increasing, and in 1966 the real growth in GNP is expected to be about 4.5 percent.

Germany's trade volume increased substantially in 1965 but her trade surplus dropped considerably as imports shot up by 19.6 percent--almost double the increase in exports. Her imports from Italy were up almost 50 percent while exports to Italy fell. As a consequence of these developments, her reserves declined \$0.5 billion in 1965. Germany has had a trade surplus for 14 successive years.

The growth in her real GNP was 5.0 percent in 1965 but the rate is expected to fall to 4.0 percent in 1966 as attempts are made to curb demand and thus, it is hoped, inflationary pressures.

Italy's economy turned upward in January 1965, signaling the end of the 1964 recession. Recovery was general by the end of 1965. The strong demand in the export sector (exports were up 20.2 percent in 1965) no doubt contributed to the recovery. Reserves at the end of 1965 were \$591 million

higher than at the end of 1964. The growth in real GNP in 1966 is forecast at 4.5 percent, equal to the average for the EEC as a whole.

The Netherlands had only a mild improvement in her trade account in 1965 and reserves rose slightly. Further improvement is expected in 1966. Internally, however, she tied Germany--at 5 percent--for the highest real growth rate in the EEC and is expected to have the highest growth rate--5.5 percent--in 1966. Plans call for an acceleration of 1965's 3.5 percent increase in fixed investment to 8 percent in 1966. Concurrently, consumer demand is to be curbed through substantial increases in indirect business taxes.

European Free Trade Association

The EFTA trade deficit was \$5.7 billion in 1965, down slightly from the 1964 level of \$6.2 billion. Total trade was up, but the increase in exports exceeded that of imports. The aggregate reserves of the member countries rose by \$899 million from the end of 1964 to the end of 1965 as other items in the accounts more than offset the trade deficit.

Table 5.--EFTA: Growth in real GNP

Country	:	1965
	:	Percent
Austria	:	3-3.5
Denmark	:	4.0
Norway	:	5.8
Portugal	:	7.0
Sweden	:	4.5
Switzerland	:	4.5
United Kingdom	:	2.5

While domestic growth continued high in 1965 for most of the EFTA countries, the rate was lower than that achieved in 1964. Portugal was an apparent exception to this as she increased her growth rate to 7.0 percent, the highest among the EFTA countries. The United Kingdom had the lowest rate of growth. The rates for all member countries are shown in table 5.

Austria had a balance-of-payments deficit of \$80 million in 1965; reserves, however, were virtually unchanged from the 1964 year-end figure. Since exports and imports rose 10.7 percent and 12.7 percent, respectively, in 1965, her trade deficit also increased slightly. Real

GNP in 1966 is expected to increase by about the same percentage as in 1965--3.5 percent.

Denmark's reserves declined by \$59 million during 1965 while her trade deficit was virtually unchanged from 1964. Real GNP increased 4.0 percent in 1965 despite the fact that agricultural output in real terms was unchanged from 1964 to 1965.

Norway managed to increase her reserves in 1965 despite a slight increase in her adverse trade balance. This was possible since capital inflows exceeded capital outflows by a good margin. Changes in her terms of trade

were favorable as export prices of goods and services rose 2.5 percent while import prices went up only 1 percent. Her domestic growth rate of 5.8 percent was exceeded in the EFTA only by that of Portugal.

Portugal's trade deficit rose in 1965 when imports increased by 17.7 percent while exports increased by only 10.5 percent. Reserves increased a little and her ratio of reserves to imports--93 percent--at the end of the year was the highest among the industrial and other high income countries. Portugal's domestic growth was also the highest among the EFTA countries.

In Sweden, aggregate demand (real GNP was up 4.5 percent in 1965) has outstripped the capacity of labor and capital to both meet domestic demand and still continue to rapidly increase exports. The resulting price increases are making imports more attractive and exports less competitive. As a result, consumer demand is being curbed and the increase in government expenditures is to be held down in 1966. Even though her 1965 trade deficit was more than double the \$181 million of 1964, her reserves remained essentially unchanged.

Switzerland's exports increased at a much faster rate in 1965 than did her imports, the former increasing by 11.9 percent, the latter by 2.4 percent. Reserves also rose slightly. The preliminary 1965 figures showing a 4.5 percent real growth in GNP may be high since they are somewhat at variance with the figures on industrial production.

For the United Kingdom, 1965 was another year in which attention was focused on the position of the pound sterling. Its position had improved considerably by the end of 1965 as compared to the end of 1964. In 1965, exports rose by 7.2 percent while imports were up only 0.9 percent. As a result, the 1965 current and long-term capital account deficit was only half the \$1.9 billion deficit of 1964. The "National Institute for Economic and Social Research" predicts a basic balance-of-payments deficit of \$350 million in 1966 and \$70 million in the first half of 1967. In addition, the United Kingdom has approximately \$2.5 billion in medium-term loans that must be repaid to the IMF and foreign banks by 1970. Progress in stemming the outflow of long-term capital seems likely to be slower than that expected by the U.K. government. More recently, her February 1966 trade figures were heartening, showing, on a balance-of-payments basis, one of the smallest deficits on record--\$14 million.

The United Kingdom's exports to the United States rose by 23 percent in 1965. However, her agricultural imports from the United States in 1965 were down 9 percent to \$438 million.

The 2.5 percent growth rate of real GNP in 1965 is expected to be repeated in 1966.

Other Industrial and High-Income Countries

The trends in reserves and trade for the countries in this group are quite diverse. In total, the 1965 increase in exports of 10.1 percent was slightly exceeded by the 11.7 percent increase in imports. Reserves fell by

\$512 million, or about 5 percent.

Japan is by far the largest trader in this group and of all the countries in the industrial and other high income countries she had the largest increase in exports in 1965, a terrific 26.7 percent. At the same time, imports were up by only 2.9 percent. Her trade balance shifted from a deficit of \$1.3 billion in 1964 to a surplus of \$0.3 billion in 1965. Reserves, however, rose by only \$133 million. Japan's imports from the United States were worth a total of \$2,366 million in 1965. Of this, \$966 million--up from \$810 in 1964--represented agricultural products. On a country basis, Japan is currently the largest market for U.S. agricultural exports. The 3 major farm products imported from the United States in 1965 by value were feed grains (all types),-\$250 million; soybeans, \$179 million; and cotton, \$133 million. Japan's economy was operating at a very low level in 1965 but for fiscal year 1966--which began April 1--a rise of 7.5 percent in real GNP is forecast.

Canada's imports in 1965 rose by 15.4 percent--3 times faster than her exports--and her trade balance shifted from a surplus to a deficit position. Reserves, however, rose slightly. If, as expected, domestic demand continues brisk, further pressure will be put on her balance of payments as import demand rises. Canada's real GNP rose 6 percent in 1965. It was buoyed in part by record agricultural output, particularly a bumper grain crop. Expansion and growth are becoming more dependent on increased productivity and better quality equipment and labor.

Spain experienced a tremendous surge in imports in 1965--\$764 million or 34.0 percent above 1964. Exports actually fell by \$9 million from 1964 and the result was a large increase in her trade deficit to \$2,064 million for 1965. This reflects in part a conscious policy of increasing imports of consumer goods in order to combat inflationary demand pressures. Overall, however, her balance-of-payments deficit was only \$147 million in 1965. Real GNP was up by approximately 7.5 percent in 1965. Agricultural output was up by 2.7 percent representing a partial recovery from the 9.7 percent drop that occurred in 1964.

Less Developed Countries

As noted earlier, the trade of the countries in this group rose at a slower pace than that of the developed areas. Exports increased 5.7 percent; imports, 3.2 percent. As a group, their reserves went up \$1,230 million to \$11,115 million, for an increase of 12.4 percent. For most of these countries 1965 data is fragmentary and area totals are essentially residual estimates.

Brazil had the largest increase in reserves--\$320 million from the end of 1964 to the end of 1965--but Argentina, Israel, Saudi Arabia, and India also had sizable increases. In absolute terms, the largest decrease in reserves among these countries for which information is available was the \$56 million loss sustained by Mexico.

Mexico's growth rate was slightly over 5 percent in 1965 with the increase coming from all sectors of the economy, including buoyant external demand. This increase was below the 10 percent rate for 1964, but the 1966 rate is expected to be a little better than the 1965 rate.

Argentina's domestic output was up 7.8 percent in 1965 while agricultural production was up only 4 percent. Her foreign trade surplus continued high at \$294 million for the year. High prices for beef and large grain shipments from carryover stocks contributed to the favorable balance. Reserves climbed by about 50 percent during the year. Inflation continued to be a problem, with prices rising 38 percent during the year. As a result, the peso was devalued by 25.8 percent over the course of the year. Efforts are being made to contain inflationary pressures, but substantial price increases are still occurring.

India's exports declined slightly in 1965 due to crop failures caused by the drought and the consequent decrease in exports of agricultural products. Some products were also affected by lower world prices. Imports of consumer goods other than foodgrains were held to a minimum, as has been the past practice. Her reserves increased by \$101 million during the year, reaching \$599 million by the end of 1965.

The Republic of China's economy continued to expand in 1965 with real GNP up 9 percent, agricultural production up 6 percent, and industrial production up by approximately 16 percent. Reserves were almost unchanged, but trade increased and 40 percent more tourists arrived in 1965 than in 1964. Exports, at \$488 million, set a postwar record.

Israel's 1965 trade deficit narrowed a little to \$406 million and is expected to be about that size in 1966. The 9 percent increase in real GNP in 1965 was slightly under the 1964 rate. Inflationary problems are besetting her now but she hopes to cut the 8-9 percent price rise that occurred in 1965 to 6-7 percent in 1966.

Libya's 28.7 percent increase in exports in 1965 was based mainly on the continued expansion in her petroleum production and exports. Reserves went up by \$73 million during the year as imports rose at one-third the rate of exports.

Nigeria's trade deficit was significantly reduced in 1965 due mainly to the successful exploitation and exportation of petroleum resources. Petroleum has surpassed both cacao and groundnuts as an earner of foreign exchange. Imports were restricted in the latter part of the year due to declining exchange reserves. As a result, reserves fell only \$5 million for the entire year.

THE U.S. BALANCE OF PAYMENTS

U.S. official reserve assets declined by \$1.2 billion in 1965 (see table 6). On a liquidity basis, there was a substantial decline in the 1965 deficit. On this basis the deficit fell from \$2.8 billion in 1964 to \$1.3 billion in 1965. However, the deficit as measured by official reserve transactions was virtually unchanged for the respective 2 years--\$1.3 billion each year.

On a liquidity basis, changes in all foreign liquid assets in the United States are counted as items financing the surplus or deficit rather than contributing to the surplus or deficit. These changes are then combined with the changes in official reserve assets to arrive at the surplus or deficit on a liquidity basis.

On an official reserve transactions basis, only the changes in liquid asset holdings in the United States reported for foreign official agencies--rather than to all foreign accounts--is considered to be a financing item. This item plus changes in official reserve assets, plus changes in certain nonliquid liabilities to foreign official agencies, yields the balance on an official reserve transactions basis.

A factor detrimental to even further improvement in the balance of payments as recorded was the \$1.2 billion decline in the traditionally favorable surplus on the goods and services account. The decline in the surplus from merchandise trade alone was \$1.6 billion, thus indicating that the surplus attributable to services and other invisibles rose from 1964 to 1965. However, unilateral transfers--which are not included in the above-mentioned figures on goods and services--increased by \$372 million.

While the net increase in U.S. assets abroad was \$5.1 billion in 1965, this represented a \$3.0 billion decrease in the net outflow of U.S. capital as compared to 1964. Therefore, the adverse effect on the balance of payments attributable to this item in 1965 was significantly less than in 1964.

The contribution to the deficit by transactions in foreign nonliquid assets in the United States (liabilities of the United States) declined by \$0.5 billion in 1965. That is, the net increase in foreign nonliquid assets in the United States was less in 1965 than in 1964. Similarly, the increase in foreign liquid assets in the United States in 1965 was \$2.5 billion less than it was in 1964.

Errors and omissions made a \$0.5 billion smaller contribution to the deficit in 1965 than in 1964. This category is normally considered to consist of unrecorded short-term capital movements.

In all, the decline in official reserve assets in 1965 necessary to cover the above changes was \$1.2 billion, or slightly over a billion dollars more than required in 1964.

Table 6--United States balance of payments

Transaction	Annually		Quarterly, not seasonally adjusted			
	1964		1965			
	1964	1965	IV	I	II	III
			Million U.S. dollars			
1 Exports of goods and services <u>1/</u>	38,345	40,684	10,369	8,918	11,031	9,697
2 Imports of goods and services	28,457	31,980	7,360	6,774	8,201	8,517
3 Balance of goods and services	9,888	8,704	3,009	2,144	2,830	1,180
4 Unilateral transfers, net, to foreign countries (-) <u>1/</u>	-4,051	-4,423	-937	-1,028	-1,448	-913
5 Transactions in U.S. assets abroad (excluding reserve assets)						
net, increase (-)	-8,141	-5,095	-3,045	-1,845	-1,096	-606
Private	-6,462	-3,526	-2,481	-1,515	-515	-384
Government	-1,679	-1,569	-564	-330	-581	-222
6 Transactions in foreign nonliquid assets in the U.S. (liab. of U.S.), net, increase (+)	667	172	337	334	-133	-247
Private	225	-51	110	274	-246	-197
Claims on U.S. Government	442	223	227	60	113	-50
7 Liquid assets in the U.S. (liab. of U.S.) reported for--						
7a Foreign official agencies	2,627	79	1,520	-657	-257	930
7b Other foreign accounts	1,073	-50	869	-860	-107	253
	1,554	129	651	203	-150	667
8 Errors and omissions	-1,161	-659	-697	210	36	-385
9 Balance to be settled by U.S. official reserve assets, deficit (-)	-171	-1,222	151	-842	-68	-41
10 Changes in U.S. official reserve assets, decrease (+)	171	1,222	-151	842	68	41
10a IMF gold tranche position	266	-94	-118	68	-466	330
10b Convertible currencies	-220	-349	-205	-58	-56	-413
10c Gold	125	1,665	172	832	590	124
Memorandum: Alternative measures, deficit(-)						
11 Balance on liquidity basis <u>2/</u>	-2,798	-1,301	-1,369	-185	189	-971
12 Balance on basis of official reserve transactions <u>3/</u>	-1,342	-1,299	-809	41	54	-272

1/ Exports and unilateral transfers include military goods and military aid grants of equal amounts and, since they enter with opposite signs, the net effect on the balance of payments is zero. The amounts for each period in millions of dollars are: 1964, \$1,328; 1965, \$1,624; 1964 IV, \$292; 1965 I, \$371, II, \$662, III, \$271, and IV, \$320.

2/ Measured by increase in U.S. official reserve assets and decrease in liquid liabilities to all foreign accounts and equals lines 7 and 10 with signs reversed.

3/ Measured by increase in U.S. official reserve assets and decrease in liquid and certain nonliquid liabilities to foreign official agencies and equals lines 7a, 10, and part of 6b with signs reversed.

Source: Department of Commerce Survey of Current Business, March 1966.

Farm products continue to be a major factor in U.S. exports, accounting for 23.7 percent of merchandise exports in 1965 (see table 7). Total agricultural exports fell by \$119 million from 1964, largely due to a drop of \$319 million in P.L. 480 shipments. Commercial agricultural exports, however, were up by \$198 million, considerably more than the \$6 million increase in imports of agricultural products. Thus, the commercial agricultural trade surplus continued to grow in 1965, up \$192 million from 1964 to \$691 million. At the same time, the nonagricultural trade surplus declined by \$1,751 million. If only commercial agricultural exports are included in the trade totals and balance of trade, then farm products account for 19.2 percent of total exports and contribute 20.7 percent of the trade surplus.

At present, exports of U.S. farm products account for one-fifth of world trade in agricultural products and represent 17 percent of the total income of U.S. farmers. Exports of animal products, cotton and wheat were down in 1965, while feed grains were up sharply--32 percent--and oilseeds and products were up by 16 percent. Exports of feed grains, wheat and flour, and total oilseeds and products were each above \$1.0 billion in 1965.

Several government programs are designed to stimulate exports of U.S. farm products. One of these is the export credit program which was recently revised to permit acceptance of foreign bank guarantees.

Under the revised program, 2/ exporters of U.S. farm products may secure 100 percent of a credit sale with a letter of credit issued by a foreign bank in favor of the CCC and payable in dollars, provided that 10 percent of the credit is additionally secured by a U.S. bank. The latter requirement can be waived in certain cases. In practice the credit period is up to 12 months, but may be as long as 3 years if certain requirements are met. The exported products may be from either privately-owned or CCC stocks.

2/ See Ralph E. Spencer, "New Credit Regulations to Boost Commercial Farm Exports," Foreign Agriculture, March 14, 1966, Foreign Agricultural Service, U.S. Department of Agriculture.

Table 7.--U.S. merchandise trade, agricultural and nonagricultural, calendar years 1963-65 1/

Transaction	Exports			Imports			Balance of trade		
	1963	1964	1965	1963	1964	1965	1963	1964	1965
	<u>Million U.S. dollars</u>								
Merchandise trade total	22,069	25,288	26,285	16,992	18,619	21,492	5,077	6,669	4,793
Agricultural total	5,584	6,348	6,229	4,011	4,082	4,088	1,573	2,266	2,141
Commercial									
agriculture	2/3,949	2/4,581	2/4,779	3/4,011	3/4,082	3/4,088	-62	499	691
Public Law 480	1,624	1,744	1,425	---	---	---	---	---	---
Mutual Security	11	23	25	---	---	---	---	---	---
Nonagricultural trade total	16,485	18,940	20,056	12,981	14,537	17,404	3,504	4,403	2,652

1/ Excluding military grants.

2/ Commercial agricultural exports include, in addition to unassisted commercial transactions, shipments of some commodities with governmental assistance in the form of (1) extension of credit for relatively short periods, (2) sales of government-owned commodities at less than domestic market prices, and (3) export payments in cash or in kind.

3/ Commercial agricultural imports constitute total agricultural imports.

Sources: Survey of Current Business, March 1966, and Trade Statistics and Analysis Branch, ERS.

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